This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS SECTION 01 OF 03 ABUJA 001972

SIPDIS

SENSITIVE

TREASURY PLEASE PASS TO OFFICE OF AFRICAN NATIONS (A. SEVERENS)
STATE PLEASE PASS TO OPIC (J. WILLIAMS AND C. DUFFY)
STATE PLEASE PASS TO USTR (P. COLEMAN)

E.O. 12958: N/A
TAGS: EINV ECON EFIN NI
SUBJECT: TEXTILE MANUFACTURERS: AGOA WILL NOT SAVE US

SENSITIVE BUT UNCLASSIFIED, NOT FOR PUBLICATION ON THE INTERNET OR INTRANET.

¶1. (SBU) Summary: Nigerian textile manufacturers are uniformly bleak about the prospects that AGOA alone will bring about a substantial increase in their apparel or textile trade. Nigeria's industry is not competitive, and it is in decline. Various industry representatives told Lagos and Abuja Econoffs in late October and early November that additional major investments are unlikely. They said the GON has failed to provide the infrastructure necessary for the industry to succeed and has no realistic plans for taking advantage of AGOA. According to these representatives, AGOA itself was flawed in that (a) it failed to provide certainty that benefits will be extended long enough for investors to recoup their investments and (b) it omitted from AGOA benefits the direct export to the U.S. of cotton yarn and gray cloth, Nigeria's principal textile products. The representatives were generally skeptical about the possibilities of developing a domestic apparel industry capable of taking advantage of AGOA. All the textile representatives we interviewed showed a fair to sophisticated understanding of existing AGOA legislation, and several were familiar with AGOA proposals under consideration in Washington. End summary.

Textile industry not competitive

¶2. (SBU) Over the last few years, according to J. P. Olarewaju, Executive Director of the Nigerian Textile Manufacturers Association (NTMA), many of Nigeria's textile plants have permanently shut down. Since 1994, the year Olarewaju took office, NTMA membership has declined from 124 members to 60. The industry has shed over 60,000 of its 140,000 jobs in Nigeria (comment: not as a result of improved efficiency). Olarewaju sees no prospects on the horizon for an improvement of the industry's future.

¶3. (SBU) At Nigerian Textile Mills' textile plant in Ikeja Industrial Estate outside Lagos, the machinery sits idle. Olatunde Atanda, Assistant General Manager of Operations for NTM, explained that in Nigeria today, most textile plants operate with equipment that is at least 20 years old. This is true even in the case of "modern" plants, such as that run by NTM competitor Churchgate. In NTM's case, the equipment is 38 years old. Replacement is expensive, and investors are reluctant to put money into an industry that most believe is faltering. Atanda said the high volume of illegal imports had forced NTM to suspend operations, but he hopes to resume production at the Ikeja plant by the end of the year.

¶4. (SBU) Atanda told us that these factors -- combined with 30 percent commercial interest rates (compared to 5-7 percent in ASEAN countries), frequent GON tariff policy changes, and social and political instability -- produced gloomy prospects for the Nigerian textile industry. High wages relative to ASEAN and other competing nations and the lack of attention in Nigeria to workers' quality of life have added to these problems.

¶5. (SBU) N. K. Janardhanan, a plant manager at part-Indian-owned Afprint, echoed Atanda's complaints. Afprint's production of printed fabrics has declined significantly, owing largely to rising manufacturing costs and an influx of cheaper goods from ASEAN countries. The plant today produces only 1.8 million meters of cloth per month, down from 3 million a few years ago; it is producing at only 60 percent capacity. Afprint exports some of its cotton yarn and gray cloth to Europe (primarily Italy, Spain

and Portugal), but entering the U.S. market is virtually impossible. AGOA, he said, makes no provision for export of these goods directly to the U.S. Janardhanan believes that, without such provision, Nigerian goods are simply not competitive, even when subject to relatively low U.S. tariffs.

Smuggled imports crushing Nigerian textiles

¶6. (SBU) P. K. Kakaraddi, Executive Director of Indian-owned Churchgate's textile division, explained that the Nigerian textile industry is being crushed by smuggled imports (the GON re-introduced a ban on imports of printed fabric in September 2002, but textile imports cross Nigeria's porous borders in large quantities). Nationwide, he said, Nigerian textile plants, including Churchgate, are operating at 60 to 70 percent capacity; most need to operate at about 95 percent utilization to realize a profit.

¶7. (SBU) Kakaraddi said 65 percent of Nigerian textile production is sold domestically, while about 35 percent is exported, most of it to neighboring countries. He went on to say that with an estimated 16,000 containers of textiles entering Nigeria illegally each year, Nigerian companies' share of the domestic market is shrinking fast. The Nigerian industry is not competitive - a fact all our interlocutors acknowledged - and cannot compete with imports from abroad, absent existing protective tariffs. Even African print fabrics can be produced more cheaply abroad, and imports continue to undercut Nigerian manufacturers of what was once a niche product.

¶8. (SBU) NTM's Atanda and his colleagues from other companies were particularly pessimistic about new investment saving the industry, saying that neither Nigerian nor international investors are likely to sink money into Nigerian-owned textile plants. Atanda, a former member of the Ministry of Commerce's AGOA Advisory Board, explained that the GON has ignored the textile industry since the discovery of oil. Nigeria's electric utility, NEPA, was incapable of providing the needed power for textiles production, and NEPA's plans to build additional generating capacity are at this stage viewed skeptically. Other textile manufacturers have complained to us that fuel oil for their factories' own electricity generators - a less than satisfactory alternative to the power grid - is often in short supply, so even this option is stymied. (Comment: Fuel oil availability may improve with petroleum products downstream deregulation, but electricity will almost undoubtedly remain an uncertain and high-cost factor for Nigeria's textile industry. End comment.)

¶9. (SBU) Moreover, the GON, Atanda complained, has no grading system for Nigerian cotton, and most Nigerian farmers therefore produce low quality, short fiber varieties. NTM and Afprint operate their own in-country cotton farms and ginneries, but most textile mills import most of their cotton from neighboring countries.

Textile manufacturers agree: AGOA not likely to help

¶10. (SBU) Atanda and the Manufacturers' Association's Olarewaju complained that the GON has provided no infrastructure and has no effective program in place for taking advantage of AGOA. Atanda added that GON presidential AGOA advisor Gladys Sasore, while clearly a capable woman in other fields, had no understanding of the textile industry. (Comment: We agree with this assessment. End comment.)

¶11. (SBU) All our interlocutors agreed that AGOA was far from certain to produce benefits for the Nigerian textile industry. Kakaraddi explained that, at least in the case of Churchgate, potential investors (most of whom would likely be from India) would want to know that AGOA benefits would be extended long enough for their investments to be recouped. Kakaraddi explained that major retooling would be necessary for Nigerian textiles to compete effectively in the U.S. He pointed out that Nigerian textiles, which are exported duty-free and without quota to the EU, are only just able to compete with products from more distant ASEAN countries. Under these conditions, potential investors would want AGOA to give them a relative advantage for at least 5 years, preferably longer, before making significant capital investments.

¶12. (SBU) Olarewaju echoed Janardhanan's complaint that AGOA excludes Nigerian exports of cotton yarn and gray cloth, the

Nigerian textile industry's main products. At the same time, Olarewaju was not at all sure Nigeria can produce acceptable quality yarn and fabric cheaply enough to compete in U.S. markets even if the items were permissible AGOA exports. Nigerian cotton is in many cases contaminated by tiny fibers from cotton pickers' polyethylene bags, and yarn made from this cotton must be sold abroad as discounted non-dying yarn.

¶13. (SBU) Atanda and Kakaraddi both pointed out that Nigeria also has no organized apparel industry - most garments are produced by a cottage industry - and that developing one would take several years. Such development would require investors confident of recouping their money. Kakaraddi suggested that Nigeria concentrate first and foremost on increasing spinning capacity in the textile industry and then think about apparel.

¶14. (SBU) Olarewaju said AGOA was unlikely to benefit Nigeria. He was aware of only two companies, United Nigeria Textiles and Afprint, that have expressed interest in expanding into apparel in order to take advantage of AGOA's apparel benefits. Neither, though, seemed to him to have the know-how, and neither was likely to be able to compete without low-interest loans from a government bank.

Conclusion: Not much hope for Nigerian textiles
-- --

¶15. (SBU) Comment: Based on our conversations, we conclude that (a) the exclusion of cotton yarn and fabric exports to the U.S. prevents most Nigerian textile manufacturers from taking advantage of AGOA, (b) current AGOA benefits are probably not sufficient to attract investors to Nigeria and (c) potential investors in any event are likely to remain wary of an industry whose owners believe is on a slippery slope to extinction. The exception to (c) might be select foreign investors that already foreign-owned firms like Churchgate hope to attract. We note in this connection that two Chinese-owned and operated textile plants in the northern state of Kaduna are reportedly operating at a profit. End comment.
MEECE